



COUNCIL RESOLUTION NUMBER 01/05/29/05/2020

REPORT ON THE 2020/21 BUDGET

• PURPOSE

The purpose of this item is to obtain approval from Council for the tabled budget for 2020/21 annual budget as per the section 16 of the MFMA Act no 56 of 2003.

• PRE-DETERMINED OBJECTIVES

To ensure full compliance with MFMA and directive from National Treasury.

• BACKGROUND

Municipal Finance Management Act, No 56 of 2003 (MFMA)

Section 16

Annual budgets

(1) The Council of a Municipality must for each financial year approve an annual budget for the Municipality before the start of that financial year.

(2) In order for a Municipality to comply with subsection (1), the Mayor of the Municipality must table the annual budget at a Council meeting at least 90 days before the start of the budget year.

(3) Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

Section 17

Contents of annual budgets and supporting documents

(1) An annual budget of a Municipality must be a schedule in the prescribed format-

(a) setting out realistically anticipated revenue for the budget year from each revenue source;

(b) appropriating expenditure for the budget year under the different votes of the Municipality;

(c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;

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(d) setting out-

(i) estimated revenue and expenditure by vote for the current year; and

(ii) actual revenue and expenditure by vote for the financial year preceding the current year; and

(e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed. (2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed. (3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:

(a) Draft resolutions-

(i) approving the budget of the Municipality;

(ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and

(iii) approving any other matter that may be prescribed;

(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the Municipality's integrated development plan;

(c) a projection of cash flow for the budget year by revenue source, broken down per month;

(d) any proposed amendments to the Municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;

(e) any proposed amendments to the budget-related policies of the Municipality;

(f) particulars of the Municipality's investments;

(g) any prescribed budget information on municipal entities under the sole or shared control of the Municipality;

(h) particulars of all proposed new municipal entities which the Municipality intends to establish or in which the Municipality intends to participate;

(i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;

(j) particulars of any proposed allocations or grants by the Municipality to-

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- (i) other municipalities;
- (ii) any municipal entities and other external mechanisms assisting the Municipality in the exercise of its functions or powers;
- (iii) any other organs of state;
- (iv) any organisations or bodies referred to in section 67(1);

(k) the proposed cost to the Municipality for the budget year of the salary, allowances and benefits of-

- (i) each political office-bearer of the Municipality;
- (ii) Councillors of the Municipality; and
- (iii) the Municipal Manager, the Chief Financial Officer, each Senior Manager of the Municipality and any other official of the Municipality having a remuneration package greater than or equal to that of a Senior Manager;

(l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of-

- (i) each member of the entity's board of Directors; and
- (ii) the Chief Executive Officer and each Senior Manager of the entity; and

(m) any other supporting documentation as may be prescribed.

Section 18

Funding of expenditure

(1) An annual budget may only be funded from-

- (a) realistically anticipated revenues to be collected;
- (b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- (c) borrowed funds, but only for the capital budget referred to in section 17(2). (2) Revenue projections in the budget must be realistic, taking into account- (a) projected revenue for the current year based on collection levels to date; and (b) actual revenue collected in previous financial years.

Section 19

Capital projects

(1) A Municipality may spend money on a capital project only if-

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(a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the Municipality, has been appropriated in the capital budget referred to in section 17(2);

(b) the project, including the total cost, has been approved by the Council;

(c) section 33 has been complied with, to the extent that that section may be applicable to the project; and

(d) the sources of funding have been considered, are available and have not been committed for other purposes. (2) Before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider- (a) the projected cost covering all financial years until the project is operational; and (b) the future operational costs and revenue on the project, including municipal tax and tariff implications. (3) A municipal council may in terms of subsection (1)(b) approve capital projects below a prescribed value either individually or as part of a consolidated capital programme.

- **DISCUSSION**

The Mayor should have tabled the budget by 31 March 2020 but due to the COVID 19 pandemic, that did not happen as the president announced the lockdown effective from 27 March 2020.

National treasury announced relaxation of the MFMA for the tabling of the budgets and IDPs and later COGTA gave guidance for the Municipalities to approve budgets and IDPs through visual processes and the deadline is on the 31 May 2020

- **STAKEHOLDERS CONSULTED**

- Chief Financial Officer
- Office of the Municipal Manager
- National Treasury
- Provincial Treasury

- **FINANCIAL IMPLICATION**

Please refer to recommendations

- **STAFF IMPLICATION**

Some of the positions were filled during the course of the financial year due to the application of section 198 B of labour relations act

- **RISK IMPLICATIONS**

If Council doesn't approve the budget, National Treasury will impose section 216(2) which states that National Treasury may stop any transfer of conditional and non-conditional grants for non-compliance.

- **ANNEXURE**
 - A-Schedule A1, A4, A5, A6, A7, A8, A9, A10 and the supporting sheets.
 - Tariff list
 - Budget Related policies:
 - a) Rates policy
 - b) Tariff policy
 - c) Indigent policy
 - d) Credit control and debt control policy
 - e) Supply chain Management policy
 - f) Budget policy
 - g) Cash and Investment policy
 - h) Subsistence and travelling policy
 - i) Virement policy
 - j) Events after reporting date policy
 - k) Petty Cash policy
 - l) Assets Management policy
 - M) Infrastructure Procurement and Delivery Management Policy
 - M) Municipal Finance Management Act No.56 of 2003 Exemption notice.

RECOMMENDATION:

- That the revenue budget remains at R 290,966m and a surplus of R4,237m that will be used internally to fund capital project of R2,555m and the net surplus will be only R1,682m.
- That the operational expenditure budgeted to R 286,678m.
- Capital expenditure has been budgeted at R81,149.
- To implement and monitor the cash flow turnaround strategy to improve effective financial management.
- To monitor collection levels during the 2020/21 budget period to ensure that funding is available to finance expenditure.
- That under no circumstances should expenditure be incurred that is not budgeted for.
- Council resolution be submitted to both National and Provincial treasuries within ten (10) working days after approval by council.
- That the public comments be solicited through all forms of electronic media and notice boards at the municipal buildings.
- That tariffs be advertised for comments in terms of section 21A of the municipal systems act.
- The budget steering committee must convene before the final approval of the budget.

The Mayor, Cllr Tsoene submitted the following:-

Honourable Speaker, Councillor Mohapi Archie Moduka,

Honourable Acting Chief Whip of the ANC Caucus,

Measurable members of EXCO

Municipal Manager and Senior Managers present,

and the other parties represented in Council.

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Honourable Speaker, Let me firstly thank you for giving me this opportunity to present before this Council the state of our municipality and the Draft Annual Budget vote for the financial year 2020/2021.

Honourable Speaker, this is the fourth Draft Annual Budget of our term of office whose mandate will be ending in August 2021 and it should serve as a crucial instrument towards the achievement of all commitments indicated in the 2016/2021 ANC Local Government Elections Manifesto.

This virtual meeting in which we are tabling the Draft 2020/2021 Budget is taking place at the time our country and the world at large is ravaged by COVID 19 pandemic.

In terms of the Local Government: Section 16 of the Municipal Finance Management Act, 56 of 2003, it is prescribed that- (1) The Council of a Municipality must for each financial year approve an annual budget for the Municipality before the start of that financial year.

(2) In order for a Municipality to comply with subsection (1), the Mayor of the Municipality must table the annual budget at a Council meeting at least 90 days before the start of the budget year.

Honourable Speaker, the annual tabling of the Draft 2020/2021 Annual Budget was scheduled for 31 March 2020 but could not proceed due to the declaration of the state of the national disaster by the President of the Republic of South Africa which took effect on 27 March 2020.

Both Ministers of Department of Cooperative Governance & Traditional Affairs and Minister of Finance subsequently issued directives which exempted municipalities for compliance with the Municipal Systems Act and Municipal Finance Management Act on 31 March and 02 April 2020 respectively, those exemptions indicated that the municipalities and municipal entities will be given 30 days for compliance after the relaxation of the Disaster Management Regulations.

As soon as the Disaster Management Regulations were relaxed through Government Gazette issued on 06 May 2020 and the National Risk Adjustment Strategy, we commenced with the processes that led to the tabling of this Draft Budget in order to comply with the provisions of the Municipal Finance Management Act.

Honourable Speaker, the personal, social and economic impact of COVID 19 is far greater and worse than anything we have experienced since the dawn of our democracy, it is for this reason that we make a call to our people to observe the lockdown conditions to enable the country to emerge out of this pandemic with less economic and social consequences.

Our Municipality is also playing a critical role in the fight against the COVID 19 pandemic, we are leading and participating at the Disaster Management JOC which is comprised of various stakeholders including the Department Health, Home Affairs, SAPS, SANDF and Thabo Motutsanyana District Municipality amongst others.

We have also ensured that we provide PPEs to our frontline staff and essential service employees, we fumigated the municipal buildings as part of gradual return of other component of employees effectively from 01 June 2020.

Honourable Speaker, the tabling of the Draft 2020/2021 Budget is taking place when our Municipality is facing serious financial challenges, in March 2020, we convened the special Council Strategic Planning Session on Revenue Enhancement Strategy, most of the activities envisaged in the strategy were delayed by the restrictions imposed by the COVID 19 Disaster Management Regulations, however, I have instructed the administration to ensure that all

the deliverables indicated in the strategy are achieved and there should be monthly reports to Executive Committee in that regard for monitoring and support.

Honourable Speaker, we must monitor that the Management take all reasonable steps to ensure a complete financial recovery in order to finance service delivery and other programmes needed by our communities. I will also ensure that all targets and key performance indicators of the Revenue Enhancement Strategy and the Credit Control Policy are included in the 2020/2021 Annual Performance Agreement of the Municipal Manager which will be reviewed and assessed quarterly as a yardstick to detect early signs of poor or under performance, we need excellence not mediocrity.

I also make an appeal to our Section 79 Committees to objectively and without fail, monitor the activities and programmes of their departments and report any form of non-compliance to Executive Committee and Council for immediate action, we are obliged to enforce consequence management, and this we will do diligently.

Honourable Speaker, the application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

2020/2021 MEDIUM TERM REVENUE EXPENDITURE FRAMEWORK (MTREF)

Honourable Speaker, the budget of the Municipality is constituted by anticipated revenue to be collected and the expenditure to be incurred in order to advance service delivery to our people. There has been constraint from revenue collected by the Municipality for the prior financial years due to the negative economic factors, as well as the unwillingness from our societies to pay for their services.

It is within this context that immediately after the tabling of this Draft Budget, the Management shall be directed to commence with the implementation of the Revenue Enhancement Strategy which will be built around the following components:

1. National Treasury's guidelines and macroeconomic policy;
2. Growth in the Municipality and continued economic development;
3. Efficient revenue management which aims to increase the annual collection rate for property rates and other key service charges;
4. Achievement of full cost recovery of specific user charges especially in relation to trading services;
5. Determining the tariff escalation rate by establishing and calculating the revenue requirement of each service;
6. The Municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, No. 6 of 2004;
7. Increase ability to extend new services and recover costs;
8. The Municipality's Indigent Policy and rendering of Free Basic Services; and
9. Tariff Policies of the Municipality.

The Municipality has headed to the call by the Minister of finance by implementing austerity measures envisaged by Circular 82, through implementation of austerity measures the Municipality is anticipating save from abuse of overtime and travel and subsistence allowances.

Honourable Speaker, in ensuring that our budget is realistic, practical and comply with legislative and regulatory prescripts, MFMA circular No. 51, 54, 66, 67, 78, 79, 85 and 86 were used as a guide during the 2020/21 IDP & Budget processes.

Revenue Management (Annexure A4)

The Total Operating Revenue has increased from R268 million to R291 million which represent a 8% increase from 2019/2020 Budget.

The Total Operating Expenditure has also increased from R273 million to R287 million which is equivalent to 5% increase, and translates into an operating budget surplus of R4.2 million.

The above figures are informed by Section 18 of the MFMA which states that the budget must be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surplus not committed and borrowed funds but only for capital projects.

Honourable Speaker, Operational Grants (Equitable share, Financial Municipal Grant and the Expanded Public Works Grant and Municipal Infrastructure Grant for Project Management costs) from National Treasury contribute 32% of the Total Operating Revenue on the 2020/2021 Draft Budget.

Service charges

- (a) Property rate increased from R17,9 million to 18, 8 million
- (b) Electricity increase from R45, 3 million to R48, 1 million.
- (c) Sewer increase from R18, 8 million to R21, 1 million;
- (d) Refuse increase from R13, 1 million to R14, 7 million and
- (e) Water increase from R44, 3 million to R51, 4 million.

The Interest on outstanding debtors was increased from R36 million to R38 million.

Honourable Speaker, Service charges will increase are as follows:

- (a) Property Rates 4.5 %;
- (b) Electricity 6.24, NERSA approved the 6.22% increase.
- (c) Water 4.5%; (d) Sanitation 4.5%; (e) Refuse 4.5 %.

Expenditure Management (Annexure A4)

The highest percentage on operational budget is Employee related cost, the Municipality budgeted R110.5 million, this is due to the salary increment and the overtime, the figure illustrated above on employee related cost also includes Social Contributions made by the Municipality to employees, Councillor remuneration is budgeted R10.7 million.

Bulk purchases on Electricity from R45,1 million to R47,6 million and the Bulk purchases on water increased from R2,2 million to R2,5 million.

Finance Charges remain a concern as the Municipality is facing major Financial Constraints and is unable to pay its creditors within 30 days, however, Interest on bank overdraft decreased from R250 thousand to R200 thousands.

Interest on creditors decreased from R12,5 million to R8 million due to the fact that creditors can't always be paid within 30 days. Eskom accumulated the most interest.

CAPITAL EXPENDITURE (Annexure A5)

Honourable Speaker, the Capital expenditure from R34,5 million to R82,8 million for infrastructure and water projects.

RECOMMENDATIONS

Honourable Speaker, I hereby table the 2020/2021 Annual Draft Budget of Mantsopa Local Municipality for consideration as follows:

1. That Council considers and approves the tabled budget that includes the operating and capital budget of the Municipality for the 2020/2021 MTREF and the two projected outer years 2021/2022 and 2022/2023 as set out in the following tables:

Table A1 – Budget Summary

Table A2 – Budgeted Financial Performance (revenue and expenditure by standard classification)

Table A3 – Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A4 – Budgeted Financial Performance (revenue and expenditure)

Table A5 – Budgeted Capital Expenditure by vote, standard classification and funding

Table A6 – Budgeted Financial Position

Table A7 – Budgeted Cash flows

Table A8 – Cash backed reserves/accumulated surplus reconciliation

Table A9 – Asset Management

Table A10 – Basic Service delivery measurement

1. That Council take note of the Draft Budget for 2020/2021 and outer years including the budget related policies as compiled and reviewed by administration as follows:

- a) Rates policy
- b) Tariff policy
- c) Indigent policy
- d) Credit control and debt control policy
- e) Supply chain Management policy

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- f) Budget policy
- g) Cash and Investment policy
- h) Subsistence & travelling policy, paragraph 8.2 be removed from the policy
- i) Virement policy
- j) Events after reporting date policy
- k) Petty Cash policy
- l) Assets Management policy
- M) Infrastructure Procurement and Delivery Management Policy

3. That Council take note of the new tariffs for the different services and rates and taxes to be considered as from the 1 July 2020. (The increases are as follows:

- (a) Property Rates 4.5 %;
- (b) Electricity 6.24, NERSA approved the 6.22% increase.
- (c) Water 4.5%;
- (d) Sanitation 4.5%;
- (e) Refuse 4.5 %; and

4. That the tabled 2020/2021 Budget be submitted to both National Treasury and Provincial Treasury within a prescribed period;

5. That Management to urgently implement and monitor the cash flow turnaround strategy to improve effective financial management;

6. That Management must implement and monitor collection levels during the budget period to ensure that funding is available to finance expenditure;

7. That under no circumstances should expenditure be incurred that is not budgeted for; and

8. That the Draft 2020/2021 Service Delivery & Budget Implementation plan including the Annual Performance Agreement of the Municipal Manager be prepared and tabled in the Executive Committee scheduled for June 2020.

9. That all Councillors wishing to submit their written representations within the next coming seven (7) days.

Cllr Nakalebe seconded.

COUNCIL RESOLVED:-

1. That Council took note of the draft annual budget that includes the operating and capital budget of the Municipality for the 2020/2021 MTREF and the two projected outer years 2021/2022 and 2022/2023 as set out in the following tables:

Table A1 – Budget Summary

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Table A2 – Budgeted Financial Performance (revenue and expenditure by standard classification)

Table A3 – Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A4 – Budgeted Financial Performance (revenue and expenditure)

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Table A6 – Budgeted Financial Position

Table A7 – Budgeted Cash flows

Table A8 – Cash backed reserves/accumulated surplus reconciliation

Table A9 – Asset Management

Table A10 – Basic Service delivery measurement

2. That Council take note of the Draft Budget for 2020/2021 and outer years including the budget related policies as compiled and reviewed by administration as follows:

a) Rates policy

b) Tariff policy

c) Indigent policy

d) Credit control and debt control policy

e) Supply chain Management policy

f) Budget policy

g) Cash and Investment policy

h) Subsistence & travelling policy, paragraph 8.2 be removed from the policy

i) Virement policy

j) Events after reporting date policy

k) Petty Cash policy

l) Assets Management policy

M) Infrastructure Procurement and Delivery Management Policy

3. That Council take note of the new tariffs for the different services and rates and taxes to be considered as from the 1 July 2020. (The increases are as follows:

(a) Property Rates 4.5 %;

(b) Electricity 6.24, NERSA approved the 6.22% increase.

(c) Water 4.5%;

(d) Sanitation 4.5%;

(e) Refuse 4.5 %; and

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4. That the tabled 2020/2021 Budget be submitted to both National Treasury and Provincial Treasury within a prescribed period;
5. That Management to urgently implement and monitor the cash flow turnaround strategy to improve effective financial management;
6. That Management must implement and monitor collection levels during the budget period to ensure that funding is available to finance expenditure;
7. That under no circumstances should expenditure be incurred that is not budgeted for; and
8. That the Draft 2020/2021 Service Delivery & Budget Implementation plan including the Annual Performance Agreement of the Municipal Manager be prepared and tabled in the Executive Committee scheduled for June 2020.
9. That all Councillors wishing to submit their written representations within the next coming seven (7) days.

Approved:



Cllr MJ Moduka

Speaker